

Q & A

Q. Why have some of the funds you offer outperformed others in the Plan?

A. When you review the performance of the funds offered in the Plan, you must make a relevant comparison to a benchmark that is an appropriate measure. To simply compare the funds against each other would not provide an accurate picture of what is happening. Each fund was carefully selected for its investment objective and style it may bring to the Plan as a whole. It is this unique selection of funds that allows a participant to diversify a portfolio. Different market segments will outperform each other over different time periods. The hot fund today may not perform as well in the future, but it can still meet its goal or targeted benchmark.

Q. So which fund do I invest in?

A. Nobody knows what will be the hot market sector in the future. That is the whole purpose of a diversification strategy. If you spread your assets among the various market segments and one of those segments is in favor, you're in luck. A long-term diversification strategy will help to avoid chasing returns as the financial markets fluctuate.

Q. Where do I find out more information?

A. You can find diversification strategies in the Building Blocks Booklet. If you have access to the Internet, there are many Web-based investment education tools (and you can view your account online) at the **myRetirementPlan** Web site at rps.troweprice.com. If you do not have a password, you must first call 1-800-541-3022.

Weathering the Storm

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The Dow Jones Industrial Average recently sank to its lowest close in years, and business scandals made headlines. These are turbulent times, and there is no foolproof method of shielding your retirement savings plan from them. But there is a way you may get through the rough patches with your nerves intact: Think long term.

Don't Try to Time the Market

Investors sometimes shift their money in and out of stock funds in an attempt to sidestep sinking prices or capture soaring ones. The problem is that "market timing" is often an exercise in futility. For example, take the stock market crash of 1987, when many investors sold their stock funds. By the end of 1988, investors had pulled over \$14.95 billion out of stock mutual funds. That same year, the Standard & Poor's 500 Stock Index, a benchmark of overall market performance, averaged returns of 16.61%¹—gains that folks who had thrown in the towel missed out on.

Keep Investing

A better way to deal with market unpredictability is to continue contributing to your retirement savings plan. By consistently investing a set amount of money (called dollar cost averaging) in stock funds at set intervals, regardless of the market's movements, you buy more shares when the price is low and fewer shares when the price is high.²

Rethink Your Tolerance

Sometimes you don't realize how much risk you can – or can't – tolerate until a prolonged market plunge ties your stomach in knots. Your ability to handle loss shouldn't be based on short-term market fluctuations. But if a long down market keeps you up at night, you might consider adjusting your investment strategy accordingly – especially if you're nearing retirement and have less time to recoup potential losses – to give yourself peace of mind.



Fight to the Finish

Remember, you fashioned a retirement savings strategy based on your financial goals, time frame, and tolerance for risk. Impulsive reactions to market movements can be counterproductive. Keep this in mind: When the market gets rained upon, try to stay calm. In the long run, a sound investment plan may keep you dry.

¹ *Trim Tabs.com Ibbotson Associates, Stocks, Bonds, Bills, and Inflation Yearbook for 2002.*

² *Dollar cost averaging does not ensure a profit or guarantee against loss in declining markets. To be effective, there must be continuous investment regardless of fluctuating price levels. Investors should consider their financial ability to continue purchases through periods of low price levels.*

Tax Credits for Participants

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) includes a provision that benefits lower- and middle-income wage earners for the tax years 2002 through 2006. A nonrefundable tax credit was included in the law for eligible participants making an elective contribution into their Deferred Compensation Plan. The credit is available for contributions up to \$2,000 and is based on the participant's adjusted gross income (AGI) and the filing status. The provision was intended to help increase



retirement savings for those who may not contribute otherwise.

Below is a table that outlines the benefit. Participants should consult their tax preparers with any questions or concerns regarding their eligibility to use the tax credit.

Adjusted Gross Income			
Joint Return	Head of Household	Single (all others)	Applicable Credit %
\$0 - \$30,000	\$0 - \$22,500	\$0 - \$15,000	50% of contribution
\$30,001 - \$32,500	\$22,501 - \$24,375	\$15,001 - \$16,250	20% of contribution
\$32,501 - \$50,000	\$24,376 - \$37,500	\$16,251 - \$25,000	10% of contribution
Over \$50,000	Over \$37,500	Over \$25,000	Credit not available

2003 Maximum Contribution Levels

The maximum contribution limit will increase for the 2003 tax year. The new limit will be the lesser of 100% of taxable salary or \$12,000. A participant who is age 50 or older will automatically be eligible to make an additional \$2,000 contribution over this maximum. In addition, a participant who has been approved and enrolled in the special catch-up provision and who is not retiring during 2003 will be able to contribute up to \$24,000. Remember, a person can not participate in both catch-up provisions simultaneously. Just as in the 2002 tax year, participants who are participating in a Section 457 along with a 403(b) or 401(k) have no coordinated deferral limit.

In order to change your deferral amount for the next tax year, simply fill out a Deferred Compensation Change Form. It is important to note your tax year may differ from the calendar year when deferring a specific dollar amount within the year. Legislators are paid monthly (in the month earned), and January will be the first pay period of the taxable year. If you are not a legislator but are paid monthly, the December pay period will be the first of the next taxable year. If you are paid semimonthly, the December 16 through 31 pay period will be your first for the taxable year 2003. If paid biweekly, you will receive either 24 or 26 paychecks each year and need to see your agency liaison for assistance in determining the first pay period of the taxable year.

A Deferred Compensation Change Form is available from your agency liaison, or you can contact this office directly at 217-782-7006. If you have access to our Web site, you may download a form at www.state.il.us/cms/employee/defcom.

Unauthorized Solicitations

We have received inquiries regarding the unauthorized solicitations from companies that are neither vendors nor agencies contracted with the State of Illinois to provide investment guidance or advice concerning retirement. We can not ensure the information provided at these seminars is accurate. In order to verify the information you receive is correct, you may wish to contact the proper agency or qualified vendor to answer certain questions. This includes the Deferred Compensation Office, the state retirement systems, or T. Rowe Price Associates.

Income and Price Information

3rd Quarter 2002

Transaction Date	Vanguard Bond Index	T. Rowe Price New Income ¹	Fidelity Puritan ²	Fidelity ³	Vanguard Inst. Index ⁴	Wells Fargo Lg. Co. Growth	Liberty Acorn	Ariel	T. Rowe Price Int'l Stock	PIC Small Cap Growth
07/01/02	\$10.13	\$8.68	\$16.64	\$24.55	\$88.54	\$38.87	\$16.86	\$38.75	\$10.59	11.79
07/02/02	10.15	8.68	16.44	24.06	86.68	37.81	16.43	37.85	10.26	11.36
07/03/02	10.14	8.68	16.42	24.15	87.22	38.56	16.38	37.37	10.03	11.39
07/05/02	10.10	8.64	16.74	25.01	90.43	40.35	16.75	38.46	10.48	11.77
07/08/02	10.12	8.66	16.66	24.75	89.35	39.24	16.60	38.29	10.58	11.58
07/09/02	10.16	8.70	16.46	24.10	87.15	38.08	16.33	37.80	10.58	11.29
07/10/02	10.19	8.73	16.18	23.32	84.19	36.87	15.98	37.21	10.24	10.93
07/11/02	10.19	8.73	16.20	23.41	84.83	37.77	15.92	36.67	9.94	10.94
07/12/02	10.19	8.73	16.13	23.27	84.28	37.46	15.80	36.40	9.96	10.96
07/15/02	10.17	8.71	16.04	23.07	83.97	37.32	15.58	35.98	9.70	10.78
07/16/02	10.13	8.69	15.86	22.63	82.43	36.64	15.44	35.43	9.65	10.79
07/17/02	10.14	8.70	15.90	22.79	82.89	37.44	15.46	35.49	9.88	10.82
07/18/02	10.16	8.71	15.71	22.24	80.66	35.96	15.08	34.59	10.03	10.56
07/19/02	10.18	8.72	15.37	21.44	77.62	34.81	14.74	34.18	9.66	10.27
07/22/02	10.20	8.72	15.03	20.70	75.07	33.70	14.39	33.50	9.25	9.99
07/23/02	10.20	8.69	14.78	20.22	73.05	32.66	13.93	32.92	9.03	9.67
07/24/02	10.15	8.68	15.23	21.33	77.25	34.64	14.46	33.76	9.08	10.16
07/25/02	10.16	8.67	15.21	21.24	76.81	33.73	14.47	34.25	9.12	10.05
07/26/02	10.15	8.65	15.35	21.59	78.10	34.48	14.59	34.64	8.99	10.08
07/29/02	10.09	8.61	15.79	22.68	82.33	36.66	15.31	36.37	9.48	10.60
07/30/02	10.08	8.61	15.84	22.75	82.69	36.60	15.34	36.25	9.44	10.69
07/31/02	10.13	8.66	15.96	22.97	83.51	36.28	15.21	36.01	9.41	10.55
08/01/02	10.15	8.68	15.72	22.33	81.05	34.93	15.03	36.00	9.09	10.35
08/02/02	10.20	8.71	15.52	21.87	79.18	33.94	14.55	34.95	9.11	10.00
08/05/02	10.20	8.70	15.22	21.19	76.47	32.86	14.20	34.42	8.84	9.64
08/06/02	10.15	8.65	15.44	21.76	78.76	34.12	14.63	35.19	8.92	10.03
08/07/02	10.18	8.69	15.58	22.17	80.35	34.91	14.65	35.40	9.08	10.10
08/08/02	10.15	8.67	15.89	22.84	82.98	35.78	14.88	36.07	9.19	10.30
08/09/02	10.19	8.70	15.97	22.95	83.29	35.71	14.88	36.07	9.35	10.34
08/12/02	10.21	8.71	15.89	22.81	82.85	35.41	14.88	36.09	9.23	10.34
08/13/02	10.23	8.74	15.71	22.34	81.07	34.76	14.58	35.54	9.31	10.12
08/14/02	10.24	8.76	16.04	23.18	84.33	36.70	14.98	36.28	9.37	10.44
08/15/02	10.21	8.73	16.15	23.47	85.32	37.35	15.17	36.64	9.42	10.61
08/16/02	10.16	8.69	16.10	23.40	85.19	37.48	15.32	37.01	9.50	10.76
08/19/02	10.16	8.70	16.33	23.93	87.20	38.59	15.55	37.22	9.64	10.94
08/20/02	10.22	8.75	16.21	23.56	85.99	38.16	15.48	36.85	9.56	10.85
08/21/02	10.22	8.76	16.33	23.81	87.09	38.72	15.70	37.12	9.64	11.12
08/22/02	10.19	8.73	16.45	24.08	88.32	39.26	15.89	37.32	9.74	11.22
08/23/02	10.21	8.75	16.26	23.56	86.32	38.16	15.61	36.74	9.66	10.98
08/26/02	10.22	8.76	16.36	23.72	86.97	38.62	15.76	37.09	9.62	11.07
08/27/02	10.20	8.74	16.26	23.41	85.76	37.58	15.51	36.62	9.80	10.76
08/28/02	10.22	8.76	16.10	23.02	84.22	36.69	15.25	36.34	9.48	10.58
08/29/02	10.24	8.78	16.10	22.99	84.22	36.88	15.41	36.73	9.54	10.80
08/30/02	10.25	8.78	16.12	22.99	84.07	36.71	15.34	36.46	9.38	10.73
09/03/02	10.30	8.82	15.73	22.09	80.58	35.16	14.94	35.80	9.04	10.36
09/04/02	10.30	8.82	15.88	22.43	82.02	35.93	15.21	36.61	9.03	10.58
09/05/02	10.32	8.82	15.75	22.10	80.71	34.80	14.93	36.24	8.99	10.37
09/06/02	10.27	8.78	15.76	22.42	82.07	35.72	15.26	36.88	9.14	10.66
09/09/02	10.26	8.77	15.86	22.67	82.90	36.22	15.36	37.02	9.05	10.76
09/10/02	10.28	8.79	15.92	22.87	83.51	36.53	15.49	37.35	9.20	10.85
09/11/02	10.26	8.77	15.93	22.86	83.51	36.57	15.49	37.35	9.37	10.85
09/12/02	10.30	8.80	15.72	22.34	81.46	35.56	15.22	36.88	9.14	10.57
09/13/02	10.32	8.81	15.74	22.31	81.73	35.96	15.28	37.10	8.95	10.63
09/16/02	10.33	8.82	15.75	22.38	81.85	35.88	15.19	37.02	8.88	10.60
09/17/02	10.33	8.83	15.53	21.96	80.23	35.24	14.89	36.71	8.86	10.45
09/18/02	10.33	8.83	15.49	21.90	79.87	35.17	14.83	36.44	8.67	10.39
09/19/02	10.35	8.84	15.21	21.30	77.47	34.17	14.52	35.87	8.53	10.14
09/20/02	10.34	8.83	15.21	21.33	77.66	34.15	14.54	35.98	8.50	10.12
09/23/02	10.36	8.84	15.14	21.09	76.59	33.53	14.30	35.54	8.25	9.92
09/24/02	10.36	8.84	14.93	20.78	75.26	33.05	14.19	34.86	8.15	9.90
09/25/02	10.32	8.81	15.09	21.22	77.16	33.89	14.42	35.49	8.22	10.21
09/26/02	10.32	8.81	15.33	21.65	78.57	34.43	14.65	36.12	8.50	10.37
09/27/02	10.34	8.83	15.03	20.97	75.67	33.48	14.45	35.44	8.55	10.24
09/30/02	10.36	8.84	14.90	20.72	74.57	32.65	14.43	35.18	8.29	10.20

¹New Income earnings are calculated using daily income accruals. They credit earnings to the first working day of the following month. Therefore, 31 days were credited for July, 33 days were credited for August, and 28 days were credited for September.

²Puritan declared a distribution of \$.12 payable June 7, 2002, to shareholders of record on June 6, 2002, using a share value of \$17.14.

³Fidelity declared a distribution of \$.05 payable June 7, 2002, to shareholders of record on June 6, 2002, using a share value of \$25.91.

⁴Vanguard Institutional Index Fund declared a distribution of \$.32 payable June 21, 2002, to shareholders of record on June 20, 2002, using a share value of \$90.37.